Approved For Release 2007/03/21 : CIA-RDP83B00140R000100050010-9

15 September 1981

NOTE FOR: NIO/LA

FROM: Chairman, NIC

Here are some comments on your note to the DCI on "radical destabilization successes:"

1. There is no doubt that some arguably preventable, political developments can inflict enormous costs on us. Your 1978 prediction of the consequences of the fall of the Shah is a case in point.

2. I agree that there are several contingencies that might occur in the near future which could have a similar effect. Those that should be of particular concern center on the Persian Gulf, which remains the most important, concentrated source of energy for the West (although noticeably diminished in importance now by comparison with 1973). There are, of course, other important sources of oil including Mexico and Nigeria, and events which disrupt supplies from these regions would also drive up the price of oil at great cost to us.

3. You should distinguish between the effect of short-term panic reactions and the effect of market forces over time. The price of oil went up in 1973/1974 and 1979/1980 because the supply of oil reaching consumers was reduced. In contrast, political events which represent a political loss for the West but do not disrupt the flow of oil are unlikely to have more than transient effects on that market and consequently are not likely to be very costly to us -- at least in the short run. Some of your cases seem to fall into the latter category, eg., Somali Lib. Front making Berbera unusable and Radical success in Guatemala.

4. To the extent that prices in markets are driven by supply and demand (again, neglecting possible short-term stockpiling),the oil price impacts in several of your cases may be zero or close to it. However, your final point is well taken: it is a good idea to be more systematic about such matters.

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Henry S. Rowen

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